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IMF Report Suggests Continued Contraction in 2009

1.(U) The IMF released on December 9 the executive summary of its Title IV consultations report, which predicts that output will decrease by at least 1 percent in 2009. The report praises the government's aggressive fiscal policy measures as well as Spain's strong banking retail model. However, it asserts that deeper structural changes are needed for Spain's economy to recover in the medium term, including Spain's inflexible labor market policies, which include wage indexing and inflexible layoff policies. Without comprehensive structural reform, the IMF warns that Spain could place itself in a hard-to-escape situation of low growth and high unemployment in the medium term. President Zapatero is quoted as saying that it is not infrequent for well-respected international organizations to be incorrect in their predictions. (IMF, 12/9, El Pais 12/12)

Housing Starts to Reach 50-Year Low

2.(U) Housing starts for 2009 will only reach 250,000 according to industry forecasts, with only 50,000 of those starts thought to be taking place in the last six months of the year. These figures are extremely bleak, given that housing starts reached 800,000 just two years ago. Forecasts indicate that only 150,000 homes will be built in 2009, the lowest number since this data began being monitored in 1960. Home prices overall have fallen by 8.8% compared with a year ago. Spain's 10-year housing boom began to slow down in mid-2007 when higher interest rates on adjustable-rate mortgages, decreasing levels of demand, an oversupply, and tighter credit finally took their toll. This slowdown affected the labor market, resulting in burgeoning unemployment now estimated at 12.8 percent according to Eurostat October figures (about a 50% increase from a year ago). Especially affected are immigrants, many of whom came

to Spain over the past 10 years to work in the booming construction sector. (El Pais, 12/10)

GOS Buys Over 7 Billion Euros in Mortgage-Backed Debt

3.(U) In what is largely being touted as a success, Spain's Treasury bought over 7.2 billion euros in mortgage-backed debt from 31 banks December 11 in its second "asset purchase auction." This is in contrast to the November 20 asset-purchase auction in which less than half of the GOS funds offered were taken advantage of. This stimulus measure is aimed at injecting more liquidity into Spain-based banks. In total, the GOS expects to purchase up to 50 billion euros worth of high-quality asset-backed debt, urging banks that take advantage of this program to increase lending to families and business. Experts speculate the heavier demand for these funds comes as a result of more favorable interest rates, among other reasons. Although the list of banks taking advantage program has not yet been made public, the country's two largest banks, Banco Santander and BBVA, said they did not participate. (All media 12/12)

Telefonica Gets Sole Use of High-Performance Fiber Optic Lines

4.(U) Local press reports indicate that an informal agreement was reached between the EC and Spain's Telecoms regulator, the CMT, to allow Telefonica to provide internet access at above 30 megabits per second without being required to share that high performance network with competitors at wholesale prices. In exchange, the CMT would change a regulation which currently designates certain regions in Spain as "sufficiently competitive", a designation which frees Telefonica from any obligations to competitors in those regions. The press reports are based on conversations that took place during a Dec. 9 conference in Barcelona

celebrating 10 years of telecoms deregulation. Despite 10 years of deregulation, Telefonica, one of Spain's recognized "national champions," continues enjoying a dominant, almost monopolistic position in Spain. Telefonica has suggested in the past that it might not lay down high performance fiber optic lines if it is forced to share those lines with competitors. (All media 12/10)

Iberdrola, GM Europe to Study Electric Car Infrastructure

5.(U) Iberdrola and General Motors Europe signed an agreement to study the requirements of a recharging infrastructure for plug-in electric cars. The companies will study in Spain and the UK the needs for plug-in sockets and electricity meters at homes and offices. A joint press release said the study reflected the companies, interest in encouraging the development of electric vehicles like the Chevrolet Volt. (GM/Iberdrola Press Release, 12/11)
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